VZCZCXRO5219
PP RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA
RUEHLN RUEHLZ RUEHNP RUEHPOD RUEHROV RUEHSK RUEHSL RUEHSR RUEHVK
RUEHYG
DE RUEHBM #0573/01 2301316
ZNR UUUUU ZZH
P 181316Z AUG 09
FM AMEMBASSY BUCHAREST
TO RUEHC/SECSTATE WASHDC PRIORITY 9832
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY
RUEHC/DEPT OF LABOR WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 BUCHAREST 000573

SIPDIS

STATE FOR EUR/CE ASCHEIBE AND AMB. GITENSTEIN

SENSITIVE

E.O. 12958: N/A
TAGS: EFIN ECON PGOV EUN IMF RO
SUBJECT: ROMANIA TARGETS BLOATED PUBLIC SECTOR UNDER IMF ACCORD

REF: BUCHAREST 563

Sensitive but Unclassified; not for Internet distribution.

¶1. (SBU) Summary. In order to comply with the revised IMF agreement (reftel), the Government of Romania (GOR) is being forced to take an axe to the bloated public sector. In the last two weeks, the GOR has announced plans for immediate furloughs as a short-term measure, with permanent layoffs and reorganization of many government agencies to follow. The central government is targeting local (county and city) governments for major personnel reductions as well. Analysts question whether these measures will cut expenses deeply enough, and there is risk of labor unrest and some disruptions in government services as the fall presidential election campaign heats up. End Summary.

¶2. (SBU) Under the revised agreement, the IMF will allocate roughly half of its next two loan disbursements, or about USD $1.9 billion, to the GOR to support the burgeoning budget deficit. In return, however, the GOR must move quickly to cut spending by 0.8 percent of GDP, or roughly USD $2 billion, by the end of 2009. The many temporary cost-cutting measures the GOR employed earlier this year to stay in compliance with the original IMF agreement will no longer be enough, and major cutbacks in public sector personnel and pension costs -- which account for over 60 percent of GOR spending -- have become unavoidable. In the immediate term, public sector employees accustomed to bonuses and other non-salary compensation to supplement their base pay will find these benefits slashed. For instance, the Ministry of Interior suddenly announced last week that it was eliminating long-standing housing and relocation subsidies for police, leaving them on their own to pay mortgages and rents, which in some cases equal half or more of their salaries. The GOR also intends to require every government employee to accept a ten- to fourteen-day furlough, or reduce paid work hours, or both, in the next two months. Public sector unions have vigorously denounced these plans as illegal violations of the government's work contracts with employees.

¶3. (SBU) Such measures, while severe, will not be sufficient. President Traian Basescu himself has criticized the GOR's furlough plans as inadequate and called on the Government to permanently cut staffing across the board by 20 percent. Whether ultimately the GOR can stomach such huge cuts in personnel remains to be seen, but in recent days it has announced plans for significant layoffs. Many will come from state-owned companies, which the IMF flagged as a particular drain on the budget. The Ministry of Economy, which controls most of these companies, has announced plans to let go an additional 5,400 employees after dismissing 5,500 earlier this year. The Ministry of Transportation is revisiting plans, shelved earlier this year under threat of strikes and traffic disruptions, to eliminate several thousand positions at the National Railroad, one of Romania's biggest money losers.

¶4. (SBU) With just one exception, all national ministries will shed positions, ranging from 1,316 jobs cut at the Ministry of Labor down to 86 at the Ministry of Foreign Affairs. Even the Ministry of Finance will lose 477 jobs, including (as the media has caustically observed) a number of positions in the taxation and auditing departments which the GOR is relying on to crack down on tax evaders. Only the new Ministry of Tourism appears to be untouched, with Minister of Tourism Elena Udrea resisting staff cuts even as she battles allegations of impropriety in her Ministry's financial dealings. Anecdotal reports suggest that some of the cuts will come from unfilled positions, or that employees will merely be transferred from one office to another, constituting reductions only on paper. However, real meat must be cut to meet the IMF target, and the Minister of Labor has publicly stated that 9,200 employees will lose their jobs.

¶5. (SBU) The real story is less about the headline numbers, and more about the accompanying restructuring among ministries and subordinate institutions. In total, the GOR has promised to eliminate 114 agencies, institutes, and regional offices. The reduction will equally affect agencies reporting directly to the Prime Minister, as well as those under the various ministries, and includes entities under both PD-L and PSD control. The restructuring will generally leave untouched agencies that manage EU funds and entities with a solid track record such as the Complaint Council.

¶6. (SBU) As the GOR is discovering, however, eliminating agencies doesn't automatically translate into big personnel reductions, since essential government functions must be preserved. For example, the four agencies dealing with family and child protection issues will be combined into one, and the two entities dealing with student

scholarships and student loans will be bundled together. This may reduce bureaucratic inefficiency, but probably will not result in significant staff reductions. In one announced case, the State Assets Resolution Agency will dismiss 18 percent of its current staff, but will be required to reemploy personnel from the Land Reclamation Company, which is closing. Similarly, the National Energy Regulatory Agency has to reduce its existing staff by 33 percent but then take on part of the staff of the Energy Development Agency, which will also cease to exist. The much-maligned Foreign Investment Agency (PSD) will be bundled with the Trade Promotion Agency (PD-L) into a Trade and FDI Promotion Agency, which will be subordinated to the Ministry of Small and Medium Enterprises (PSD).

¶7. (SBU) Urged on by the IMF, GOR axe-wielders have also set their sights on bloated local bureaucracies, which employ more than 320,000 people across Romania -- a number that has increased by 60 percent just since 2005. The IMF is requiring that Romania establish guidelines for numbers of public employees each county or municipality should have based on the population size. Localities with 1,500 to 3,000 inhabitants, for instance, should have town halls with no more than 14 civil servants under the GOR's proposal. If enforced, the guidelines will lead to thousands more layoffs nationwide, including a 60 percent reduction at Bucharest City Hall (which would drop from 1,060 to 400 employees). The GOR lacks the authority to dismiss local public servants directly, but is threatening to withhold funding from non-compliant municipalities, which financially are almost totally dependent on the central government.

¶8. (SBU) Comment. While the personnel cuts proposed by the GOR look draconian, the reality is more complex and raises many questions. Foremost is the question of whether it will all be enough to meet the stated budget objectives. Even if the GOR succeeds in getting rid of all the central and local government employees proposed so far, the projected cost savings is in the hundreds of millions, not billions, of dollars. Public sector employment has exploded in recent years, and it will take truly merciless slashing to return the bureaucracy to levels of even two or three years ago. At the same time, letting all these employees go is not cost free, as most will be eligible for hefty severance

payments and will then transfer directly to the GOR's unemployment benefits roster. Total net savings to the GOR are likely to be disappointing. Add to this the parallel GOR effort, also required by the IMF, to pass legislation aimed at harmonizing pay scales across the government and eliminating the myriad of bonuses and subsidies. The GOR acknowledges that the legislation will likely result in a majority of public servants, especially those lower down the wage scales, actually getting a significant salary increase. The math simply doesn't add up, and everyone's fear is that Romania will end up with a smaller but even more dysfunctional bureaucracy which still doesn't meet the IMF agreement's budget goals.

¶9. (SBU) Comment continued. The other big question is whether the PD-L/PSD coalition can take the political heat this downsizing process will generate. Romania's fractious public sector unions so far this year have shown little ability to carry through on threats of serious labor protests, but that could change once large numbers of their members actually start receiving pink slips. Restructuring and consolidation of government agencies will disrupt the carefully negotiated division of patronage and control between the PD-L and PSD. At the same time, imposition of major cutbacks in local bureaucracies will threaten the power bases of local party barons who wield substantial influence, particularly within the PSD. Heading into the fall presidential election campaign, it is a volatile mix. End Comment.

GUTHRIE-CORN